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ISLAMABAD FOR TREASURY A/S O'BRIEN

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SUBJECT: SCENESETTER FOR VISIT TO BANGLADESH OF TREASURY  
A/S PATRICK O'BRIEN

1, (SBU) Summary: Bangladesh is at a cross-roads in its development of a solid AML/TF regime. Though the USG, mostly through DOJ, has provided training programs, Bangladesh's central Bank needs technical support with computer programs and advisors to set up the FIU. Foreign partners have an opportunity to get in on the ground floor to support the bank's growing interest in combating money laundering and terrorist financing. However, achieving new legislation and major policy decisions in this government's final months is problematic given the political leadership's narrow focus on a no-holds-barred, acrimonious election expected in January 2007. End Summary.

2. (SBU) The murderous campaign of violence waged between August and December of 2005 by the banned Islamist extremist group Jamaatul Mujahhidin Bangladesh (JMB) ultimately forced the BDG to tackle terrorist threats with new vigor, at least on the law enforcement side. The BDG has basically dropped its prior position that terrorism, domestic or foreign, was absent from Bangladesh, though it continues to blame India and the political opposition for facilitating or manipulating JMB. It stresses that the overwhelming majority of Bangladeshis are moderate and tolerant, and that virtually no one in Bangladesh outside of JMB supported that group's terrorist tactics.

3. (SBU) The Bangladesh Bank (BB), the country's central bank, has spearheaded the drive to combat anti-money laundering (AML) and Terrorist Financing (TF) since 2002 when the Anti-Money Laundering Act 2002 (AMLA-02) was passed. Despite gaping holes in the present law, such as the lack of a definition of money laundering, BB has succeeded in establishing the Anti-Money Laundering Unit (AMLU), which is the country's de facto Financial Intelligence Unit (FIU). The bank has sent members of the group to seminars around the world sponsored by FIUs in Asia and the U.S., the Department of Justice, and the Asian Pacific Group (of FIUs). The AMLU team have developed a "Know Your Customer" manual and has trained compliance officers in all of the country's banks and their branches. In addition, each bank is requested to have an anti-money laundering compliance unit in its head office.

4. (SBU) Unfortunately, progress on the Anti-Money Laundering Act 2005 (AMLA-05 and the Anti-Terrorism Act (ATA), both of which have undergone several cabinet-level reviews, has stalled in part because of the upcoming election. The government is expected to give way in mid-October to a

caretaker regime, which then has 90 days to hold a national election. Bangladeshi elections are no holds barred, winner take all, and the ruling BNP has already reached the point where it is very narrowly focused on defeating its bitter rival, the Awami League. Spontaneous uprisings and demonstrations against serious shortages of power, fuel, and water, resulting from bad government policies and failing infrastructure, have made the government extra defensive. While the two laws are unlikely to pass this year, the central bank is pressing forward with its efforts to establish a properly functioning FIU and an enforcement and prosecution office to secure convictions.

¶5. (SBU) The banks are required through an administrative order to make suspicious transactions reports (STRs) and, more recently, currency transaction reports (CTRs) for amounts of USD 700 or more. Compliance by the banks is spotty, with approximately 200 STRs filed in the last three years. RLA has seen samples of the STRs and BB's analysis of the accounts which would pass muster for a prima facie case in the United States. There is no computerization of the STR system. Local banks submit their reports in hard copy and the analysis is done by hand. A high-ranking bank official said he "scrounged" two computers to start imputing the CTRs.

¶6. (SBU) There have been no prosecutions, in part due to the former Bureau of Anti-Corruption's abrupt abrogation of duty to investigate the STRs. The country's police unit, the Criminal Investigation Division (CID), has taken on the cases but difficulties in the criminal procedure code have yet to be worked out between the BB and CID to facilitate faster investigation. Even if the investigations were quickly concluded, another stumbling block is the lack of skilled

DHAKA 00002746 002 OF 002

prosecutors, all of whom are underpaid political appointees who will lose their jobs if the ruling party loses the election in January.

¶7. (SBU) JMB's terrorist onslaught, which killed about 30 persons and wounded more than 100, spotlighted the role of STRs. Police seizure of bank records belonging to JMB ringleaders led BB to several banks, including those which follow Sharia banking principles. BB fined the banks for not filing the STRs because the patterns in the accounts of large deposits and withdrawals clearly indicated suspicious activity. Though the fines were small, the main culprit, Islami Bank, faced a small dip in its stock share when the news broke that JMB members used the bank. (Note: Islami Bank is easily the most profitable Bangladeshi bank and is widely seen as well managed and relatively non-corrupt.)

¶8. (SBU) Most every foreign consultant and BDG official concerned with the AML/TF world agrees that Bangladesh needs a stronger FIU with proper software to build its data base. Currently, the AMLU unit has five computers for its 24 members and no IT capability to store or analyze the STRs. BB's is keen for assistance but requests to Australia, Malaysia, Philippines, and the United States have either been rebuffed or politely refused due to lack of funds, manpower or both.

¶9. (SBU) Meanwhile, the draft AMLA-05 was effectively slow-tracked in December when the government announced that the ATA would have to be passed first to make terrorism financing a criminal offense. That law has serious flaws, such as extremely broad language mirroring the draconian Special Powers Act granting unbridled police power. In addition, a provision calling for international cooperation was dropped because of fear that Dhaka would be forced to share its intelligence with "unfriendly" countries (read India). There is now discussion at the cabinet level on whether there even needs to be a law on terrorism, citing that crimes committed -- in the name of terrorism -- are already covered by the criminal code.

¶10. (SBU) If the ATA is scuppered, the provisions for criminalizing terrorist financing can be restored to the AMLA-05 draft. The new law provides powers to the FIU to meet international recommendations set forth by the Financial Action Task Force (FATF). If the legislation were to pass intact, DOJ lawyers believe that the new law is roughly 85% compliant with FATF standards. However, in cabinet meetings held throughout the autumn, certain provisions were cut, including a Financial Investigation and Prosecution Office (FIPO) which would have BB examiners, specially trained police investigators and prosecutors working together to secure convictions. Those in favor of FIPO say it can be done administratively. While an expedient alternative, the future of FIPO would be subject to the administration in charge.

CHAMMAS